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Final Draft

THE INSTALLATION OF A COAL WASHING PLANT AT KARGALI

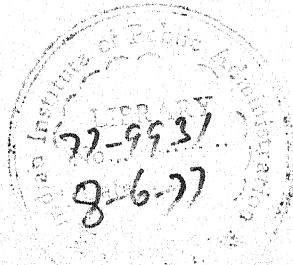
A Case Study.

By

M.J.K. Thavaraj

&

K.L. Handa



The Indian Institute of Public Administration
Indraprastha Estate
Ring Road.
NEW DELHI.

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THE INSTALLATION OF A COAL WASHING PLANT AT KARGALI

The Background

In 1954, the Union Ministry of Production was preoccupied with the task of making advance arrangements to meet the coal requirements of the proposed steel plants at Rourkela and Bhilai. The coal requirements of the Rourkela and Bhilai plants were estimated at 1.60 million tons and 1.85 million tons per annum respectively, the specification being metallurgical coal with ash not exceeding 15 per cent of a uniform quality. The Central Government's Kargali coal field was considered to be a rich source of one of the best metallurgical coal excepting that its ash content was somewhat high i.e. 17 to 20 per cent. Washability tests established that the Kargali seam was washable to yield very good results. Also, it was suggested by the consultants of the Rourkela plant that the bulk of the metallurgical coal requirements of the Rourkela steel plant should be obtained from the Kargali/Bokaro Collieries (of the Kargali group) after washing.

The possibility of utilising the coking coal mined at Kargali and Bokaro collieries to meet the needs of the proposed steel plants at Rourkela and Bhilai was being urgently examined by the Ministry of Production in 1954.

The setting up of a coal washing plant for supplying washed coal to the two steel plants was considered highly desirable. A committee was set up in July 1954 by the Government of India in the Ministry of Production to report on the nature, type and capacity of a coal washing plant which should be installed for improving the quality of the coal produced at these two collieries by reducing its ash content and thereby making it suitable for use in the steel plants. The Committee, known as the Kargali Coal Washing Plant Committee, comprised of the Chief Mining Engineer, State Collieries, as Chairman, and the representatives of the Fuel Research Institute of India, the Damodar Valley Corporation, the Hindustan Steel Ltd., and the Chief Cost Accounts Officer, Ministry of Finance, as members. In its report submitted in January 1955, the Committee recommended the installation of a 550-ton per hour Coal Washing Plant* at Kargali for washing the entire output (2.2 million tons per annum) of the two State Collieries at Kargali and Bokaro so as to make it suitable for use in the steel plants at Rourkela and Bhilai. The Committee also

* This was considered by the Committee as the maximum optimum size at Kargali for washing the entire output of the two State Collieries.

observed that the total yield of washed coal would be approximately 1.6 million tons per annum and of middlings approximately 0.4 million tons per annum. It was estimated that at the proposed rate of exploitation there were sufficient reserves of metallurgical coal at Kargali/Bokaro to last for more than 50 years. The Committee thought that out of the total quantity of washed coal available from the Kargali Washery, 1.2 million tons could be supplied to the Rourkela plant and the balance of 0.4 million tons to the one at Bhilai. Also, the Committee felt that nearness of Kargali to the Damodar Valley Corporation's Bokaro Thermal Plant would be an advantage in disposing of the entire output of middlings. The Committee however did not go into the details of the price to be charged from the Steel Plants and the Bokaro Thermal Plant for the coal to be supplied to them from the Kargali Washery and thought that the final price of the product to be charged from the various consumers should be decided after some experience had been gained of the actual costs of operation of the Washery. It observed that as the units buying coal from Kargali Washery would ultimately be Government owned or financed "the actual price to be charged to the consumers should be decided by the Government

at a higher level after the costs and losses in revenue were determined in actual practice".

The recommendations of the Coal Washing Plant Committee were considered in the Ministry of Production in an inter-departmental meeting held on the 21st February, 1955, attended by the Joint Secretary, Ministry of Production (Shri S. Jagannathan), representatives of the Planning Commission (Shri E.P. Moon - Adviser) and the Ministry of Finance (Shri K.R.P. Aiyangar - Joint Secretary), the Managing Director of the Hindustan Steel Ltd. (Shri S.N. Mazumdar), the Coal Commissioner (Shri R.K. Ramadhyani), the Chief Mining Engineer, State Collieries (Shri A.B. Guha), the Officer on Special Duty, Project Division, Ministry of Production (Shri M.K. Mathulla) and the Deputy Secretary, Ministry of Production (Shri A. Nanu)*. At the meeting, Shri Jagannathan stated that as the Hindustan Steel Ltd. was not inclined to put up its own washing plant, the only alternative left was for the State Colliery Department to set up the Washery. Further, Shri Aiyangar and Shri Jagannathan raised the issue of recovering the net

* Shri S.S. Khera, Secretary, Ministry of Production was present at the meeting for sometime only.

cost of washing from the steel plants which were the principal consumers. Shri Mazumdar speaking on behalf of the Hindustan Steel Ltd., accepted the proposal of paying an extra price on account of the cost of washing. Shri Mathulla agreed with this proposal on behalf of the Bhilai Plant. Further, it was decided that a Coal Washing Plant as proposed by the Kargali Coal Washing Plant Committee should be installed at Kargali and commissioned before the end of 1957. Shri S.S. Khara, Secretary, Ministry of Production, subsequently sent a note dated April 21, 1955 to the Cabinet Secretariat for the information of the Steel Committee of the Cabinet. In this, he traced the history of the proposal and outlined the arrangements necessary for meeting the requirements for metallurgical coal of the proposed steel plants at Rourkela and Bhilai. He also narrated the recommendations of the Kargali Coal Washing Plant Committee and the decisions reached in the inter-departmental meeting of the 21st February 1955.

Having decided to instal a Coal Washing Plant at Kargali, the Government took the necessary steps for setting it up such as invitation and scrutiny of tenders, making available the necessary funds in the Plan as a whole and in the annual budget, placing of orders and so on. An

indent was placed on the Director General of Supplies and Disposals who issued global tenders for the main items of plant and equipment for washery at Kargali.* In the meeting of the Planning Commission held on the 15th October, 1955** a provision of Rs. 6 crores was agreed to for purposes of setting up of Coal Washeries in the Public sector during the Second Five Year Plan period. This provision also covered the proposed coal washery at Kargali. Later, in the meeting of the senior officers of the Government held on the 16th December, 1955,** it was decided to constitute a

* No project report, as such, was prepared for the Kargali Coal Washing Plant. Tenders for the Washery were floated by the Director General of Supplies and Disposals on the basis of the technical data contained in the report of the Kargali Coal Washing Plant Committee.

** This meeting was attended by the following from the Planning Commission: Deputy Chairman, Member (Finance), Member (Industry), Member (Education), Deputy Minister of Planning, and some senior officers of the Commission. The following senior officers represented the Ministry of Production: Shri S. Jagannathan, Shri M.K. Mathulla, Shri Saroop Krishen and Shri P.M. Nayak. Shri V. Narayanan attended the meeting on behalf of the Ministry of Finance.

*** The meeting was attended by the following officers: Shri M.R. Sachdev, Secretary, Ministry of Works, Housing & Supply; Shri S.S. Khera, Secretary, Ministry of Production; Shri R.S. Krishnaswami, O.S.D., Ministry of Production; Shri K.L. Ghei, Joint Secretary, Ministry of Finance; Shri S.N. Ghosh, Deputy Secretary, Ministry of Finance; Shri V.N. Rajan, Director General of Supplies & Disposals; and Shri S.T. Thadani, Director of Supplies (Engineering), D.G. S. & D.

Negotiating Committee comprising of the Director General of Supplies & Disposals, his associate Finance Officer and a Secretariat Officer from the Ministry of Production* to make a comparative examination of the tenders received and select the most suitable firm for awarding the contract.

At the discussions held in the office of the Director General of Supplies & Disposals on the 5th November, 1955, Shri A. Nanu, Deputy Secretary, Ministry of Production, stated that funds required for the execution of the Kargali Washery Project would be forthcoming. The Ministry of Production approached the Ministry of Finance and obtained from them informal confirmation about availability of necessary funds for the execution of the Kargali Washery Project. Kargali Washery was the first composite type of washery in India and also the first Coal Washing Plant in the public sector. It was, therefore, difficult to work out its various estimates. Consequently, it was decided that the formal financial sanction of the Ministry of Finance would be taken when the exact detailed cost estimates

* The following constituted the Negotiating Committee:
Shri V.N. Rajan (Director General of Supplies & Disposals), Shri K.L. Ghei (Joint Secretary, Ministry of Finance) and Shri R.S. Krishnaswami (Coal Production & Development Commissioner).

of the project were known.* Shri S.T. Thadani of the Directorate General of Supplies & Disposals in his letter to Shri A. Nanu of the Ministry of Production referred to Shri Nanu's statement during the discussions of the 5th November, 1955 and requested him to confirm that the necessary funds for executing the Kargali Project would be available. Accordingly, in his reply dated the 19th November, 1955 Shri K.N. Nagar, Under Secretary, Ministry of Production confirmed that funds for payment on account of Kargali/Bokaro Washery would be available. Later, in his letter of the 6th March, 1956 addressed to Shri V.N. Rajan (Director General of Supplies & Disposals), Shri S. Jagannathan (Joint Secretary, Ministry of Production) confirmed that Shri Nagar's letter of the 19th November, 1955 was written with financial concurrence and budget provision of Rs. 80 lakhs had been proposed in the budget for 1956-57 and in due course provision would be made for the

* The formal sanction from the Ministry of Finance involved preparing a memorandum by the Ministry of Production, incorporating in a prescribed form detailed information on the various aspects of the proposed project including its cost estimates, for the consideration and approval of the Departmental Finance Committee, then comprising of the Minister concerned in the Ministry of Finance and the dealing officers from the Ministry of Finance and the administrative Ministry.

year 1957-58*

On the recommendations of the Negotiating Committee, the Director General of Supplies & Disposals placed on the 7th March, 1956, on behalf of the Ministry of Production, a contract of the value of Rs. 1,72,38,320 (Rs. 1,66,05,139 for plant and equipment and Rs. 6,33,181 for spare parts) on Messrs. Eastern Equipment & Sales Ltd., Calcutta, representing Messrs. Daiichi Bussan Kaisha (later named M/S Mitsui Bussan Kaisha) of Japan. This contract was for the supply, erection and commissioning of a Coal Washing Plant at Kargali with a rated capacity of

The following provisions were incorporated for the Kargali Coal Washery in the budget for the years 1955-56 and 1956-57:

<u>1955-56</u>	<u>1956-57</u>
Budget Estimates 5 lakhs	80 lakhs
Actual Expenditure.....	4.65 lakhs.

It was decided by the Government that the expenditure incurred on the Kargali Washery Project upto 30-9-56 (i.e. upto the transfer of assets and liabilities of the Government of India in respect of the State Collieries to the National Coal Development Corporation Ltd. with effect from 1.10.56) was to be debited to the expenditure head relating to State Collieries and that thereafter such expenditure would be met by the N.C.D.C. Ltd. from out of their funds and the Director General of Supplies & Disposals (who are concerned with making payments to the contractors) would pass on the debits to them.

The expenditure on the Kargali Washery from 1.10.56 has been met from the Capital Grant of the National Coal Development Corporation for which budget provisions were made in the respective years.

1.64 million tonnes of clean coal per annum.*

The National Coal Development Corporation is formed

In pursuance of the objectives of the Second Five Year Plan to develop the coal industry, the Government of India decided to set up the National Coal Development Corporation as the largest single coal-producing unit in the country. The National Coal Development Corporation was established in September, 1956 as a limited company registered under the Indian Companies Act, by transferring to it the eleven state-owned collieries at (1) Kurhurbaree, (2) Serampore, (3) Kargali, (4) Bokaro, (5) Jarangdih, (6) Sawang, (7) Argada and (8) Bhunkunda in Bihar, (9) Talcher and (10) Deulbera in Orissa and (11) Kurasia in Madhya Pradesh.**

* The contract was formally concluded with the issue of the Acceptance of Tender dated the 9th June 1956.

** These collieries were originally owned by the various railway companies till the nationalisation of the railways, when they were placed under the control of the Railway Board. The Railway Board retained responsibility for directly managing these collieries till May 1944, after which the management of these collieries was transferred to the Coal Commissioner who worked under the former Ministry of Industry and Supply and later under the Ministry of Production.

The National Coal Development Corporation with its headquarters at Ranchi, was placed under the administrative control of the Ministry of Production* and its functions included the following:

- (1) Prospecting and development of coal resources in the outlying areas.
- (2) Development of coking coal resources through deep shaft and other mines.
- (3) Construction of coal washeries in order to reduce ash content and ensure consistency of coal for steel plants.
- (4) Setting up of workshops for repairing heavy earth-moving machinery and manufacturing spare parts.
- (5) Training of technicians, and
- (6) Provision of amenities to the workers.

The National Coal Development Corporation is governed by a Board of Directors presided over by a Chairman. The Board includes a Managing Director who is a whole time employee of the Corporation and acts as its Chief Executive. All the members of the Board of Directors are appointed by the President of India and hold office during his pleasure. The powers of the Board of Directors inter-alia include the power to authorise the undertaking of works of a capital

* The National Coal Development Corporation remained under the administrative control of the Ministry of Production till the 17th April 1957, when the Corporation was put under the charge of the newly constituted Department of Mines & Fuel in the Ministry of Steel, Mines & Fuel.

nature, subject to the condition that all cases involving a capital expenditure exceeding Rs. 40 lakhs shall be referred to the President of India for his approval before authorisation. The Corporation has distributed its projects and collieries into ten regions, each under a General Manager.*

Approval of the Cost Estimates
of the Kargali Coal Washing Plant
by the N.C.D.C.'s Board of Directors

The Government transferred the charge of the Kargali Coal Washery Project to the National Coal Development Corporation on its establishment. The preparation of the detailed cost estimates of the Kargali Coal Washing Plant took time because the Japanese tenderers had to be consulted and it was only in October 1956, that the details of all the estimated expenditure to be incurred on the entire Kargali Washery Project could be known. The Corporation prepared abstract cost estimates of the project which were considered by its Board of Directors in their meeting held on the 15th November, 1956. After seeking certain clarifications the Board considered them again in their meeting of the 20th December, 1956. The Board asked for

* These regions are: (1) Karanpura, (2) Bokaro-Kargali, (3) Giridih and (4) Central Jharia in Bihar State; (5) Korba, (6) Singrauli, (7) Baikunthpur and (8) Bistrampur in Madhya Pradesh; (9) Talcher in Orissa; and (10) Nagpur in Maharashtra.

further clarifications and considered them in their meeting of the 22nd February, 1957, in which the estimates of the Kargali Washery Project were finally approved by the Board of Directors. They also authorised the Managing Director to move the Government for sanction and to proceed with the items of work. These cost estimates totalled Rs.2.46 crores and covered the expenditure to be incurred on the main items of plant and equipment ordered from the Japanese firm and also the expenditure on ancillary works comprising of water-supply, sanitary and electric installations, civil construction, provision of roads, drains, etc. The scheduled date of commissioning the Kargali Coal Washing Plant into production was January, 1958. The main equipment had already been ordered. Hence, the Managing Director, under authority from the Board of Directors, proceeded with the execution of the ancillary works so as to complete them on time.

After approval by the Board, the cost estimates of the Kargali Washery Project (including those for the main items of plant and equipment and of the ancillary works) were sent by the Corporation to the Department of Mines & Fuel (Ministry of Steel, Mines & Fuel) for formal sanction, on the 31st May, 1967. There were several references

between the administrative Ministry and the National Coal Development Corporation in connection with the estimates which ultimately reached the administrative Ministry in December, 1957, in the desired form.

Expenditure Finance Committee

With a view to enable the Ministry of Finance to have an opportunity to consider all big projects in their various financial and economic aspects both in regard to policy and details, an Expenditure Finance Committee has been established to examine all such proposals before a formal sanction of the Ministry of Finance is accorded to the cost estimates of such projects.

Since the abolition of the Standing Finance Committee of Parliament in 1952, the expenditure proposals of large schemes were being referred to a Departmental Finance Committee in the Ministry of Finance, which comprised the Minister concerned in the Ministry of Finance and officials from the Ministry of Finance and the administrative Ministry concerned. The following types of cases were required to be submitted in the prescribed form bringing out all the financial, budget, stores purchase and other implications of each scheme, to the Departmental Finance Committee:

- i) All proposals involving expenditure on a 'New Service'.
- ii) All proposals for expansion of existing services involving an expenditure of over Rs. 5 lakhs non-recurring and/or over Rs. 1 lakh recurring per annum.
- iii) All proposals for supplementary grants. These will include not only the schemes already approved by the Departmental Finance Committee but also increases in normal expenditure due to various causes.
- iv) Any other proposal/policy matter on which the Finance Ministry liked to seek the advice of the Committee.

In their office memorandum dated August 10, 1956* the Ministry of Finance changed the name of the Departmental Finance Committee to Expenditure Finance Committee and raised the recurring and non-recurring limits for the proposals for expansion of existing services, to be submitted to the Committee, to Rs. 2½ lakhs and Rs. 10 lakhs respectively. Again, in their Office Memorandum** of May 3, 1957, the Ministry of Finance reconstituted the Expenditure Finance Committee with the Secretary (Expenditure) Ministry of Finance as Chairman and senior representatives of the administrative Ministry and Joint Secretaries of the Ministry

* Ministry of Finance O.M. No. F.7(48)-E (Coord)/56 dated August 10, 1956.

** Ministry of Finance O.M. No. F.3(4)-E (Coord)/57 dated May 3, 1957.

of Finance concerned with the various aspects of the proposal including the Joint Secretary (Personnel) and the Joint Secretary (Budget) as members. It was also provided that if a particular proposal involved important economic policy implications, the meeting of the Expenditure Finance Committee would be convened by the then Principal Secretary (Finance) and the Secretary (Expenditure) and other members of the Committee would be invited to the meeting. It was further clarified that (i) proposals for loan, and (ii) proposals relating to schemes of autonomous bodies received for sanction of the Central Government in accordance with/^{the} constitution of the body, would also be submitted to the Expenditure Finance Committee for approval.

Another Memorandum* was issued by the Ministry of Finance on February 3, 1965, which intimated that proposals requiring a reference to the Expenditure Finance Committee would be considered at meetings convened by the Finance Minister with Minister of State in the Ministry of Finance, Secretary (Expenditure) and Secretary (Coordination) as members and assisted by the Financial Adviser concerned with the proposal. The Joint Secretary (Budget) in the

* Ministry of Finance O.M. No. 3(1)-
E(Coord)/65, dated February 3, 1965

Department of Economic Affairs acted as the Secretary of the Committee. The Secretary in the administrative Ministry or some other officer not below the rank of Joint Secretary was required to attend the meetings of the Committee to justify their proposals. The present form of E.F.C. memorandum in which proposals are required to be submitted by the administrative Ministries is given in Appendix 'A'.

The Ministry of Finance issued another Office Memorandum* on April 23, 1966, reconstituting the Expenditure Finance Committee as follows:

1. Secretary (Expenditure)-- Chairman.
2. Secretary (Coordination).
3. A representative of the administrative Ministry/Department concerned not below the rank of a Joint Secretary.
4. Joint Secretary (Budget).
5. Financial Adviser concerned with Ministry sponsoring the proposal -- Secretary of the Committee.

It was also provided that in the absence of the Secretary (Expenditure), the Secretary (Coordination) would preside and where necessary, the Joint Secretary (Personnel) in the Expenditure Department who is incharge of the

* Ministry of Finance O.M. No. F 3(1)-
E (Coord)/66 dated April 23, 1966.

Establishment Division would also be invited. In this memorandum the financial limits for referring to the Committee, proposals relating to the expansion of existing services were raised to Rs. 25 lakhs (non-recurring) and Rs. 5 lakhs per annum (recurring).

In a subsequent memorandum* issued on the 20th June, 1966, the Ministry of Finance conveyed its decision that whenever a proposal, to be considered by the Expenditure Finance Committee, involved any question of foreign exchange or of foreign aid from international institutions or other countries, the concerned Joint Secretary in the Department of Economic Affairs should also be invited to attend the meeting of the Expenditure Finance Committee and a copy of the Memorandum circulated for consideration of the Committee should also be endorsed to him in advance.

As can be seen the cost estimates of the Kargali Coal Washery Project required to be approved by the Expenditure Finance Committee before a formal financial sanction could be issued.

* Ministry of Finance O.M. No.E3(1)-E
(Coord)/66 dated June 20, 1966.

Submission of an E.F.C. Memorandum
to the Ministry of Finance

The Department of Mines and Fuel revised the cost estimates of the Kargali Washery Project prepared by the National Coal Development Corporation to Rs. 2.38 crores and, in March 1958, submitted an E.F.C. memorandum on the Project to the Ministry of Finance for formal sanction. This E.F.C. memorandum incorporated cost estimates both for the main items of plant and equipment imported from abroad and for the ancillary works which were necessary to be executed before the plant could be commissioned into service. By the time the E.F.C. Memorandum was submitted to the Ministry of Finance for approval, a major portion of the estimated expenditure had already been incurred both on the main items of plant and equipment and on the ancillary works like water supply, drainage, electric installations, haulage, tipplers, civil construction works etc. The concurrence of the Ministry of Finance had been obtained for the expenditure of Rs. 1.72 crores towards payment to the Japanese firm (M/s Mitsui Bussan) for the supply, erection and commissioning of the Coal Washing Plant before the necessary orders were placed on the firm by the Director General of Supplies & Disposals. The cost estimates of the ancillary works had not received

any sanction of the Ministry of Finance and these works were executed by the Managing Director of the National Coal Development Corporation on the authority of the Board of Directors.

In the Ministry of Finance, the then Financial Adviser (Shri V. Narayanan) while examining the E.F.C. Memorandum, observed inter alia the following and returned the memorandum on the 12th March, 1958 to the Department of Mines and Fuel for action accordingly:

"The washery is nearing completion and it is somewhat academic to obtain sanction for the cost at this stage. What is really more important is the consideration of how the washed coal should be disposed of so that the washery does not make a loss. I suggest this point be considered and the results of the agreement between the N.C.D.C. and the Hindustan Steel Ltd., and approved by the Departments of Mines & Fuel and Iron & Steel and the Ministry of Finance be embodied in the E.F.C. memorandum".

Preparation of a Revised
E. F. C. Memorandum

On receiving the E.F.C. Memorandum back from the Financial Adviser with the remarks that the economics of the Washery based on the prices of washed coal to be charged to the Hindustan Steel be incorporated in the memorandum, the Department of Mines and Fuel asked the National Coal Development Corporation to work out and

submit the details regarding the working cost etc., on the basis of the latest prices of coal and washed products. The N.C.D.C. sent a reply to the Department of Mines & Fuel in October 1958, that as the Washery was nearing completion and shortly to be put into commission the results of the actual working of the plant should be watched for sometime before they could be in a position to furnish realistic figures regarding the working of the Kargali Washery. In view of the date of commissioning of the Washery being close at hand, the Department of Mines & Fuel also thought that it would be better to consider the cost estimates of the project after it was commissioned and a clear picture of the recurring and non-recurring costs had emerged.

The Kargali Coal Washery went into production in November 1958.* On putting the plant into Commission, it was observed that it had certain short-comings and did not appear to be performing satisfactorily. The teething troubles faced by the Washery were caused by the degradation in the size of coal in course of transit from the

* The plant was put into commission on November 1, 1958.

pit mouth to the washery and excessive dust formation in the washing plant which adversely affected the operation of the plant. The data reflecting the economics of the washery as asked for by the Ministry of Finance, could not, therefore, be immediately available. The exercise of estimating the various cost components of working the Washery to determine the price of washed coal and to secure an agreement on the subject between the National Coal Development Corporation and the Hindustan Steel Ltd., took a very long time. Apart from the Kargali Washery being the first composite type of washery in the country and thereby presenting some uncertainties particularly about the recurring cost, the washery could not, for long, settle down to a reasonable rate of output because of the various troubles faced in the operation of the plant. These teething troubles led to serious differences between the National Coal Development Corporation and the Japanese contractors as to the responsibility for these defects. After considerable pressure from the Corporation, the Japanese Contractors remedied, at their own cost, the defects for which they were found responsible. The Washery, however, could not be run to

capacity for a long time and this led to increased cost of production of washed coal and posed a bone of contention between the National Coal Development Corporation and the Hindustan Steel in determining the price of washed coal to be charged from the latter.

The Government of India notified the price of middlings through the Colliery Control Order and thought of having controlled prices for the clean washed coal as well. This, of course, did not come through. The price which the HSL would pay for the washed coal was, therefore, left to be settled through negotiations between the National Coal Development Corporation and the Hindustan Steel. The matter was discussed between the representatives of the N.C.D.C. and the H.S.L. who agreed that, in the initial period, when the plant was under trial and production was much below the rated capacity, the price to be paid by the H.S.L. to the N.C.D.C. should be on the basis of the actual costs. Pending the fixation of a permanent price for washed coal, an interim agreement was entered into between the N.C.D.C. and the H.S.L. for 'on account' payment by the H.S.L. for the washed coal supplied to it from the Kargali Washery at a rate equal to the price of selected 'B' Grade coal plus Rs. 5/- per

tonne.* The Department of Mines & Fuel, with the concurrence of the Department of Iron & Steel, conveyed its approval of the interim price fixed for the washed coal to the N.C.D.C. on December 1, 1959 and specified that the agreement would be a purely transitional arrangement and would be taken into account at the time of fixation of statutory price of washed coal. While communicating this decision of the Government, the Department of Mines & Fuel requested the N.C.D.C. to suggest a suitable price for washed coal after consulting the H.S.L. and after obtaining the approval of the Board of Directors of the N.C.D.C. Since then the National Coal Development Corporation had protracted discussions with the Hindustan Steel in order to evolve a basis for the fixation of a permanent price of washed coal. This exercise took a very long time since the negotiating parties spent considerable time evolving the basic principles to determine standard cost of production, fix the quantum of a reasonable monthly production which the washery should maintain, arrive at a formula for calculating depreciation and so on. Also, the agreement was to be reached for different periods of

* This arrangement continued upto the 30th September, 1961.

production, i.e. from November 1958 to 30th September, 1961 and thereafter from October 1, 1961 to March 31, 1963.

In April 1961, the National Coal Development Corporation sent to the Department of Mines & Fuel a part of the material required for the preparation of the E.F.C. memorandum. As this information was incomplete, the Department of Mines & Fuel asked the N.C.D.C. to furnish the remaining information and clarifications. A draft E.F.C. memorandum was thereafter prepared in October 1961 on the basis of the material and information received in the Department of Mines & Fuel from the N.C.D.C. However, at that time, it was felt that as the Kargali Washery was not capable of working to its optimum capacity, the E.F.C. memorandum for the washery might be recast after its economics had been re-examined. As the negotiation for the fixation of a permanent price for the washed coal was going on between the N.C.D.C. and the H.S.L. the former requested the Department of Mines & Fuel that the preparation of a revised E.F.C. memorandum might be kept pending till an agreement was reached between the Corporation and the H.S.L. in regard to a permanent price for the washed coal.

It was only when all the defects were removed, the washery attained its optimum capacity and after prolonged correspondence and discussions that an agreement on certain basic principles to be followed in fixing the price of washed coal to settle the various prices to be charged from the H.S.L. was reached between the representatives of the N.C.D.C. and the H.S.L. in their meeting held on December 14, 1961.

The salient features of this agreement were as follows: .

- "(i) The H.S.L. would pay to the N.C.D.C. the actual cost of washed coal for the period beginning from November 1958 i.e. the date from which the washery was commissioned till the 30th September, 1961.
- (ii) For the period 1.10.61 to 31.3.63, the N.C.D.C. will calculate standard cost on the basis of an average output of 100,000 tons of clean coal with ash content of 15.8 - 16 per cent per month and the H.S.L. will pay the price for the washed coal supplied to them on this basis.

(iii) If, there is any loss during the 18 months period on the basis of actual working, such loss would be borne wholly by the N.C.D.C. In other words, the N.C.D.C. will bear loss if in any month during the 18 months period the production of washed coal at the washery falls below 1,00,000 tons the loss being equivalent to the difference between the price of washed coal based on 1,00,000 tons production and the actual price based on washing lesser quantities (less than 1,00,000 tons). According to the N.C.D.C., on an average monthly production of 1 lakh tonnes of clean coal, the standard cost of washed coal has been assessed as the controlled price of selected 'B' Grade coal plus Rs. 9.5 per tonne.

(iv) If, however, there is any profit during the period, the profit will be shared between the N.C.D.C. and the H.S.L. in the ratio of $1/3 : 2/3$. This proportion was accepted by the representatives of the N.C.D.C. because the H.S.L. would be

accepting the entire development expenses of the earlier period.

- (v) There will be provision for a bonus/penalty clause for variation in the standard ash content of 15.8 to 16 per cent in a period of a month referred to in (iii) above".

In view of the observations of the Financial Adviser (referred to earlier), the agreement reached between the N.C.D.C. and the H.S.L. regarding the various prices of washed coal to be charged from the latter, was required to be approved by the Department of Mines & Fuel and Iron & Steel and the Ministry of Finance before the results of the same could be incorporated in the E.F.C. memorandum. The Department of Iron & Steel was initially reluctant to ratify the agreement as the same was considered by them as favourable to the N.C.D.C. only. It involved protracted correspondence and discussions to persuade the Department of Iron & Steel to accept the pricing formula as agreed to between the National Coal Development Corporation and the Hindustan Steel. This agreement was thereafter approved by the Ministry of Finance. The Department of Iron & Steel conveyed its

approval of the agreement to the Hindustan Steel Ltd. on July 25, 1962. The Ministry of Mines & Fuel* thereupon communicated to the National Coal Development Corporation, on August 27, 1962, the Government's approval to the agreement and requested them to take necessary action to prepare a revised E.F.C. memorandum in the light of the agreement reached by them with the Hindustan Steel for obtaining sanction of the Expenditure Finance Committee to the capital expenditure of the Kargali Coal Washery Project. The E.F.C. memorandum was then suitably recast by the National Coal Development Corporation and sent to the Ministry of Mines & Fuel on the 25th October 1962 for necessary approval and onward transmission to the Ministry of Finance.

* In April 1962, when the new Central Cabinet took office after the third general elections, the Department of Mines and Fuel was given the status of a Ministry in the reorganised set up.

Submission of the E.F.C.
Memorandum to the Ministry
of Finance (a second time)

After examining the E.F.C. memorandum, the Ministry of Mines & Fuel made a reference to the National Coal Development Corporation on November 24, 1962 asking for clarifications and additional information on the following points:

- "(I) In para III(a) of the draft E.F.C. Memo forwarded by the Corporation, recurring expenditure on the Kargali Washery per annum has not been indicated. This information may be given year-wise since the commissioning of the Washery. The information about the recurring expenditure per annum when the Washery is working to its optimum capacity possible under the present circumstances may also be given.
- (II) The Corporation have omitted para IX & XI from the draft E.F.C. Memo furnished by them. The information for the two paras may be given.

(III) The following statements which are required to be appended to the E.F.C. Memo have not been received with the draft Memo forwarded by the Corporation:

- (i) Statement showing the expenditure on plant and machinery on the Kargali Washery Scheme;
- (ii) Statement showing the pay scales of posts existing at the Kargali Washery;
- (iii) Statement showing the expenditure on buildings.

Upto-date information may be given in the above statements.

(IV) From the minutes of the meeting held on the 14th December 1961, a copy of which has been attached to the draft E.F.C. Memo as Annexure B it is seen that in respect of certain items appearing therein viz; interest, water charges, depreciation, miscellaneous and other expenses, bonus-cum-penalty scheme, further action was required to be taken by the National Coal Development Corporation. It is requested that the latest position regarding all the items mentioned in the aforesaid minutes of the meeting may be indicated.

- (V) In Annexure 'C' - Item 11 -- Interest, the basis of calculation of interest may be given.
- (VI) Whether in view of the changes in the grading of coal as well as the prices of the various grades of coal the estimated cost of washing 1,00,000 tonnes of coal as given in Annexure 'C' will still hold good. If not, revised figure about the cost of washing per tonne of washed coal may be given.

In this respect, the Corporation may also give some details as to how the figures mentioned in Annexure 'C' have been arrived at. For example how much raw coal has been taken into account for arriving at a figure of Rs. 28,37,523/- in item 1 - Raw Coal etc.

- (VII) It is noticed from para I (b) of the minutes of the meeting held on the 14th December 1961, that the standard cost for the period 1.10.61 to 31.3.63 will be calculated on the basis of average output

of 1,00,000 tons of clean washed coal with ash content of 15.8% - 16% per month. However in Annexure 'C' this standard cost of washing coal in the Kargali Washery has been computed on the basis of 1,00,000 tonnes of output of washed coal. This may be reconciled."

By the time these queries were made by the administrative Ministry, differences had cropped up again between the N.C.D.C. and the H.S.L. on certain issues which inter alia included the basis of charging depreciation under the price agreement as to whether it should be on the straight line method or on the written down method. Because of certain points regarding the fixation of the price of washed coal remaining to be settled between the N.C.D.C. and the H.S.L., the N.C.D.C. could not furnish the requisite clarifications and information called for by the Ministry of Mines and Fuel. The N.C.D.C., however, replied to the Ministry of Mines & Fuel on March 16, 1963 stating that the finalisation of the revised E.F.C. memorandum was held up on account of certain changes in the policy regarding the method of charging depreciation which required the

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Board of Directors' approval and a revised E.F.C. memorandum would be sent after the Board had held its meeting. The Board of Directors in their meeting held on April 3, 1963 approved of the adoption of the straight line method instead of the written down value method in calculating depreciation in respect of the Kargali Washery. At the instance of the H.S.L. and in pursuance of the broad agreement on principles arrived at between the two corporations on December 14, 1961, another agreement was reached between the N.C.D.C. and the H.S.L. for fixing the price of washed coal for the period from October 1961 to March 1963 on the basis of standard cost of washing to be worked out for an output of one lakh tonnes of washed coal. A revised E.F.C. memorandum incorporating the additional information as desired by the Ministry of Mines & Fuel was thereafter sent to them by the N.C.D.C. on June 12, 1963. After receipt of this revised E.F.C. memorandum the case was examined in the Ministry of Mines & Fuel and it was thought that certain clarifications and additional information should be asked from the N.C.D.C. Pending the

receipt of the information from the N.C.D.C., the Ministry of Mines & Fuel sent the E.F.C. memorandum to the Ministry of Finance (Department of Expenditure) on August 3, 1963 for their perusal and preliminary examination. In the Ministry of Finance (Department of Expenditure) the Assistant Financial Adviser (Shri N.P. Mukerji) on August 5, 1963 stated as follows and returned the case to the Ministry of Mines & Fuel:

"This is a fait accompli and we shall be grateful if the complete proposal is referred to us."

Submission of the E.F.C.
Memorandum to the Ministry
of Finance (a third time)

A teleprinter message was sent by the Ministry of Mines & Fuel on July 31, 1963 to the National Coal Development Corporation asking for the following clarifications and additional information:

"(I) Appendix C-I to the E.F.C. Memo indicates only the standard cost of washing for an output of one lakh tonnes for the October 1961 - March 1963. Kindly indicate whether this standard cost will also be

applicable for the production of washed coal after March 1963.

- (II) From Annexure 'H' to the E.F.C. Memo under the Heading "Rent of the Land" it appears that the valuation of the Land for Washery was to be made at the rate of Rs. 2,500/- per acre for twenty-eight acres and rent calculated at 6 percent for this amount. It is not clear from Annexure CI as to the item under which the N.C.D.C. have taken the credit for Rent of the Land.
- (III) Annexure CI to the E.F.C. Memo shows the standard cost on the basis of one lakh tonnes as against one lakh tons shown in sub-para I (B) of the Minutes of the Meeting of December 14, 1961. It may be clarified.
- (IV) Para VI of the Annexure 'B' to the draft E.F.C. Memo mentions about provision for bonus-cum-penalty Scheme for variation in the Standard Ash Content. No mention has been made of this scheme in Annexure 'H' to the draft E.F.C. Memo.

(V) From Annexures 'A' & 'G' to the E.F.C.
it is seen that
Memo/the Revised Estimates and actual
expenditure on the Kargali Washery upto
31.3.62 are as follows:

	<u>Revised Estimates</u>	<u>Actual Expen-</u>
	Rs.	diture Rs.
1. Buildings	67,44,566	17,22,768
2. Plant & Equipment	1,58,17,943	2,05,80,639
3. Wagons & Locos	3,63,000	3,82,937
4. Furniture & Fittings	12,000	19,450
5. Railway Siding	2,19,400	--
6. Vehicles	61,000	53,558
7. Development	9,02,951	4,94,005
	<hr/>	<hr/>
	2,41,20,860	2,32,53,407
	=====	=====

Reasons for the difference between the
revised estimates and the actual expen-
diture may kindly be furnished."

The N.C.D.C. in their reply of August 7, 1963
informed the Ministry of Mines & Fuel as follows:

- "(1) The Standard cost in Appendix C-I applies only for the period October 1961 - March 1963. A revised standard cost for the next two year period from April, 1963 to March, 1965 was prepared and sent to Messrs Hindustan Steel Limited for their acceptance.
- (2) Rent of the Land : This is an item of cost and not a credit. This has been included under Item 9 - other charges. This charge is payable by Washery to the Colliery since Washery stands on the colliery land and this asset is borne in the Colliery Books.
- (3) During 1961 when the discussions regarding finalisation of the price with Messrs. Hindustan Steel Limited was going on, we had gone to Metric Standard and therefore all our transactions were based upon Metric tons (i.e. Tonne),. In the minutes dated 14-12-61, wherever the word Ton has been used, it meant Metric Ton (i.e. Tonne). Therefore,

wherever the word 'Ton' has been used it should be regarded Metric Ton or Tonne .

- (4) The question of introduction of Bonus-cum-Penalty clause is still under consideration.
- (5) As regards the differences in the estimated and actual figure heads, there have been re-appropriations from one Head to another. Our actual expenditure upto 31st March, 1962 was well within the Revised Estimates."

The Ministry of Mines & Fuel raised further queries and in their communication to the N.C.D.C. of August 16, 1963 desired to know, (1) the reasons for the increase in the expenditure on Plant and Equipment, (2) shortfall in the expenditure on Buildings and reasons therefor, (3) actual expenditure incurred on the Washery as on 31st March 1963, and (4) latest position about fixation of standard price of washed coal beyond March 1963. The N.C.D.C. in their reply of August 21, 1963 furnished the following information to the Ministry of Mines & Fuel:

"(1) The total actual expenditure booked upto 31.3.63 is Rs. 2,21,70,762. Break up of this expenditure as compared to project estimate cost is as under:

<u>Details</u>	<u>Revised Project Estimate</u> (Rs)	<u>Actual Expenditure upto 31.3.63</u> (Rs)
Residential and other Buildings	34,39,300	15,00,653
Plant and Machinery	1,91,23,209	1,96,89,638
Wagons and Locos	3,63,000	3,82,937
Furniture & Fittings	12,000	21,694
Vehicles	61,000	53,558
Railway Siding	2,19,400	-
Development	9,02,951	5,22,282
	<hr/> 2,41,20,860	<hr/> 2,21,70,762
	=====	=====

(2) It may be seen that the total expenditure upto 31.3.63 is only Rs. 1,96,89,638 as against the estimate figure of Rs. 1,91,23,299 and the increase is less than 3 per cent.

Further, the variation in other items also is very small. It may be mentioned here that the actuals upto 31.3.63 have reduced and this is because certain portion of Buildings and Plant and Machinery which were actually to be in the Books of Colliery Assets were included in the Washery Accounts although the same have been excluded from the revised estimate as can be seen in the E.F.C. Memo Annexure 'A' - Part III. The assets have now been transferred from Washery books to Colliery Books.

- (3) During the year 1963-64 it has been anticipated to incur an expenditure of Rs. 8.35 lakhs and the expenditure on the Buildings are progressively incurred subject to the actual requirements year by year. However it is mentioned that the original estimate of Rs. 2,41,20,860 will be maintained.
- (4) Latest position about fixation of standard price of Washed Coal beyond March 1963 : We have already sent the

draft standard cost to Messrs. Hindustan Steel Ltd., and they have been examining the figures. The final discussion is expected to be taken up by the end of this month after which the price will be fixed."

On receipt of this reply, a further teleprinter message was sent on August 28, 1963 by the Ministry of Mines & Fuel to the N.C.D.C. asking for additional information and clarifications which the N.C.D.C. supplied through their teleprinter message of September 6, 1963. Again a reference was made by the Ministry of Mines & Fuel on September 11, 1963 asking for further information for completing the E.F.C. memorandum. The N.C.D.C. replied to the queries of the Ministry of Mines & Fuel on the 16th September, 1963. To another reference of the Ministry of Mines & Fuel dated September 26, 1963 the N.C.D.C. furnished the necessary clarifications and information on October 3, 1963.

The E.F.C. memorandum was thereafter submitted On November 7, 1963 by the Ministry of Mines and Fuel to the Ministry of Finance for necessary financial sanction to the cost estimates of the Kargali Coal Washery Project. The Ministry of Finance returned the case to the Department of Mines and Metals (Ministry of Steel, Mines and Heavy Engineering)* on February 21, 1964 raising certain queries on the E.F.C. memorandum and asking for additional information and clarifications on the following points:

- "1. Names of the countries from which N.C.D.C. obtained the equipment and whether spares were obtained alongwith the equipment. This information may be given separately in respect of the Foreign Exchange expenditure of Rs. 119 lakhs in respect of the main contract and Rs. 31 lakhs for ancillary works. Full details as to the equipment/ country of origin and whether spares were

* In November 1963 the Ministry of Mines and Fuel was abolished and the subjects of 'Mines' and 'Coal' were assigned to the newly constituted Ministry of Steel, Mines and Heavy Engineering and put under the charge of its Department of Mines and Metals.

procured alongwith the equipment as also whether the concurrence of the Economic Affairs Department was obtained for importing the equipment may be furnished.

2. It has been stated in para 6 of Explanatory Notes on the E.F.C. Memorandum for the Kargali Washery in Annexure 'A' thereto that cost of ancillaries like haulages etc., acquired for transporting coal from Kargali and Bokaro quarries to washery bunkers has been excluded from the revised estimates as these items form part of the Colliery assets and no credit for these has been taken into account in the revised estimates. Ministry of Finance want to know the ultimate dispensation of these assets.
3. Actual capital expenditure incurred/to be incurred on the Washery in 1963-64 against various items and the specific items on which further expenditure is likely to be incurred in future.

4. The price for washed coal to be recovered from H.S.L. from 1.4.63 onwards and the economics of the washery based on such a price may be indicated.
5. What are the prospects of the Kargali Washery achieving the rated capacity of 1.37 lakh tonnes per month?"

Kargali Washery
Expansion Scheme

Before we proceed further with the case for approval of the E.F.C. memorandum for the establishment of a Coal Washing Plant at Kargali, it needs to be mentioned that during the course of these events an expansion scheme for increasing the capacity of the Kargali Washery was formally sanctioned by the Ministry of Finance.

The Government of India accorded sanction on the 31st March 1962 to the N.C.D.C. for the execution of the Chalkari Colliery Project for raising an annual output of 0.5 million tonnes from Chalkari mine in the Bokaro-Kargali area. The coal from the Chalkari mine was found to be of Grade I quality with a high caking index and having ash content from 18.6 to 21.3 per cent.

This coal was considered suitable after washing for use in the steel plants. Instead of putting up a new washery to treat the Chalkari coal the National Coal Development Corporation took advantage of the existing washing plant at Kargali and formulated a scheme, in consultation with the two German Washery experts assigned to the Corporation under the Indo-German Technical Aid Programme, for certain modifications to and expansion of the Kargali Washery from its then over-all in-take capacity of 2.20 million tons to about 2.72 million tons per annum.

A project report for the extension of the Kargali Coal Washing Plant for beneficiation of an additional 0.5 million tonnes of raw coal from Chalkari Colliery was prepared by the National Coal Development Corporation and approved by its Board of Directors at their meeting held on February 15, 1962. The N.C.D.C. through their letter of April 23, 1962 sent the requisite material for the E.F.C. memorandum in respect of the expansion scheme of the Kargali Washery to the Ministry of Mines and Fuel. Afterwards, correspondence went on between the Ministry of Mines & Fuel and the

National Coal Development Corporation. Again, revised estimates for the expansion scheme were prepared by the National Coal Development Corporation and were considered by its Board of Directors at their meetings held on the 28th and 29th December 1962. These revised estimates for the project were incorporated by the N.C.D.C. in an E.F.C. Memorandum which was sent to the Ministry of Mines & Fuel for their approval and submission to the Ministry of Finance for obtaining the necessary sanction.

The Kargali Washery expansion scheme was approved by the Finance Minister on July 9, 1963 at the estimated cost of Rs. 1.85 crores including a foreign exchange element of Rs. 48.9 lakhs and an amount of Rs. 28 lakhs for items of civil works.

Approval of the E.F.C.
Memorandum by the
Ministry of Finance

The Department of Mines and Metals in their teleprinter message dated the 29th February, 1964 asked the N.C.D.C. to supply the necessary information and clarifications on the points raised by the Ministry of Finance in their note of February 21, 1964. The N.C.D.C. in their teleprinter message dated April 21, 1964 furnished the desired information as follows:

- "1. The complete equipment was obtained from Japan. The spares were received alongwith the equipment. This applies both to the equipments and ancillaries costing Rs. 119 lakhs and Rs. 31 lakhs respectively. As regards the concurrence of E.A.D. for foreign exchange the order was placed by D.G.S. & D. on behalf of the late Ministry of Production after calling for Global tenders. Hence the Ministry would be able to answer this point.
2. Since the value of assets like haulages etc., at colliery ends form part of the collieries, the cost of such assets have

been excluded from ancillaries. As such no separate credit has been shown. The equipments have been transferred to assets accounts of collieries concerned.

3. The following are actual capital expenditure incurred in 1963-64. The figures are provisional since account closing is currently on hand:

i) Building	...	Rs. 1,43,599
ii) Plant & Machinery	...	Rs. 58,941
iii) Furniture & Fittings	...	Rs. 3,772
iv) Development	...	Rs. 14,088

4. The standard cost of washed coal on which H.S.L. will have to pay for supplies made beyond 1.4.63 is still under negotiation with Messrs. H.S.L. *

* A revised standard cost was negotiated between the N.C.D.C. and the H.S.L. for the supplies to be made to the latter during the two year period ending March, 1965. This again was a long drawn out process involving various disputed issues like the N.C.D.C. insisting that the price should include a fair return on the capital employed and the H.S.L. authorities being firm on not agreeing to this. Further negotiations were held between the two corporations for fixing the price of Kargali washed coal for the year 1965-66. Again it became so difficult for the N.C.D.C. and the H.S.L. to arrive at an agreed decision that the Secretary, Department of Iron & Steel, and the Secretary, Department of Mines & Metals had to intervene to bring about a settlement. The same happened in the process of fixing the price of Kargali washed coal for the year 1966-67.

5. The capacity of the Washery is judged from the quantity of raw coal input. Against the rated capacity of 2.2 million tons or 1.83 lakh tons per month the washery has actually reached a figure 1.73 lakh tonnes per month which works to 90 per cent".

On the basis of the information supplied by the N.C.D.C. and the data available with the Department, the Department of Mines and Metals resubmitted the E.F.C. memorandum to the Ministry of Finance on May 20, 1964 for formal financial sanction. In addition to the information furnished by the N.C.D.C. through their teleprinter message of April 21, 1964, the Department of Mines & Metals explained that the contract for the supply, erection and commissioning of the Kargali Washery was placed by the Director General of Supplies & Disposals on June 9, 1955 when sanction of the Economic Affairs Department for release of foreign exchange was not necessary. The Department of Mines & Metals further explained that prior permission of the Economic Affairs Department was obtained by the N.C.D.C. regarding foreign exchange for ancillary works, etc.

In the Ministry of Finance, Department of Expenditure (Mines and Metals Division), the concerned Assistant Financial Adviser (Shri N.P. Mukerji) examined the case and submitted it on November 16, 1964 to the Financial Adviser (Shri N.S. Pandey) with the recommendation that Government approval be accorded to an expenditure of Rs. 224 lakhs being the actual expenditure upto March 31, 1964 on the construction of the Kargali Coal Washing Plant. The Financial Adviser to whom the case was submitted, had newly taken over. On December 1, 1964 he recorded a note and wanted all the previous documents placed on the file for him to get a clear picture of the case. He also observed that Government should have approved the detailed project report of the Kargali Washery including the detailed cost estimates in the normal way. The Assistant Financial Adviser (Mines & Metals -- Shri N.P. Mukerji) answered on December 3, 1964 the various queries raised by the Financial Adviser and stated that no project report as such was prepared for the Kargali Washery. He also explained that Government had decided to set up the Kargali Coal Washery on the basis of the report of the Kargali Coal Washing Plant Committee and added that

a note had been submitted to the Steel Committee of the Cabinet for information. The Assistant Financial Adviser further stated that Kargali Washery was included in the Second Five Year Plan and a provision of Rs. 2.5 crores existed for the Kargali Washery under "Coal Washeries".

The Financial Adviser (Shri N.S. Pandey) again recorded a note on December 10, 1964 asking for further information and stated, "In this case it seems that the project having been executed long ago, there is nothing left for us to do but to acquiesce in the expenditure already incurred. There does not seem to be much point in issuing now formal approval to the expenditure already incurred on the setting up of the Coal Washery". He however wanted to see the sanction issued for civil construction and other ancillary works executed by the N.C.D.C. The Assistant Financial Adviser in his reply of December 21, 1964 stated that no Government sanction had so far been issued for civil works and other ancillary items taken up by the N.C.D.C.; an estimate for these was prepared by the N.C.D.C. and approved by its Board of Directors. The case was later discussed

between the Financial Adviser and the Assistant Financial Adviser on February 2, 1965. On the basis of this discussion, the Assistant Financial Adviser submitted a note on February 17, 1965 in which he gave the background of the case and an analysis of the economics of the Project and recorded the following data (as furnished by the N.C.D.C.) regarding the latest capital estimate for the Kargali Washery and the actual expenditure incurred upto 31.3. 64:

(In Rupees - Lakhs)

	<u>Capital Esti- mate</u>	<u>Actual Expen- diture upto 31.3.64</u>
1. Residential and other Buildings	34.39	16.44
2. Plant and Machinery	191.23	197.49
3. Wagons and Locos	3.63	3.33
4. Furniture and fittings	0.12	0.25
5. Vehicles	0.61	0.54
6. Railway siding	2.19	--
7. Development	9.03	5.36
	<hr/>	<hr/>
Total	241.20	223.91
	=====	=====

The Assistant Financial Adviser recommended in his note approval of the Ministry of Finance to the actual capital expenditure on the Kargali Washery Project of Rs. 224 lakhs. Later, on February 25, 1965 the Financial Adviser (Shri N.S. Pandey) put up the case to the Special Secretary (Ministry of Finance -- Shri K.L. Ghei) wherein he highlighted the salient features of the proposal and stated that out of the total expenditure of Rs. 223.91 lakhs an expenditure of the order of Rs. 172 lakhs was incurred on order/^{ing}plant, equipment and spares from the Japanese concern (M/s Mitsui Bussan Kaisha) and the confirmation of the availability of necessary funds was informally obtained by the late Ministry of Production from the Ministry of Finance. He further stated that the balance of expenditure of about Rs. 50 lakhs was incurred on other items like residential and other buildings (Rs. 16.44 lakhs), Wagons and Locos etc. (Rs. 3.83 lakhs) and ancillary plant and equipment (Rs. 25.11 lakhs) for which no specific approval of Government was obtained. The Financial Adviser concluded his note with the following remarks:

"It seems somewhat late in the day to go through the procedural formality of an E.F.C. Memo. It is suggested that Finance Minister may kindly see for giving approval to the present proposal of according ex-post-facto sanction to the expenditure not exceeding Rs. 224 lakhs incurred on the Kargali Washery".

The Special Secretary (Shri K.L. Ghei) recorded a note on February 28, 1965 raising certain queries and remarked, "The original (1958) estimate was Rs. 238 lakhs, the present one is Rs. 241.20 lakhs. I am not clear why sanction proposed is for Rs. 224 lakhs?" The Financial Adviser (Shri N.S. Pandey) in his note of March 22, 1965 explained that he had earlier proposed sanction for Rs. 224 lakhs because that was the expenditure actually incurred on the washery upto 31.3.64. He however stated that on further checking the balance sheet of the N.C.D.C. it was noticed that the actual expenditure incurred on the fixed assets of the Kargali Washery upto 31.3.64 was Rs. 234.19 lakhs. He therefore submitted the case to the Special Secretary with the recommendation that formal approval of the Government be accorded to the expenditure of Rs. 234.19 lakhs incurred on the original Kargali Washery Project. The case was thereafter discussed by the Special Secretary with the

Financial Adviser. The Financial Adviser recorded the following note on the 23rd July, 1965:

"In the circumstances of the case it seems desirable that ex-post-facto approval of Government to the incurring of expenditure of Rs. 234.19 lakhs of the Kargali Washery may be conveyed, and the submission of E.F.C. Memo dispensed with."

The Special Secretary thereupon observed as under in his note of July 31, 1965:

"I am still not clear as to under what authority was expenditure (other than on Plant & Equipment) incurred all these years -- was there a valid authority? If not, this becomes a case of ex-post-facto approval. Before the case is submitted to Finance Minister the administrative Ministry should be requested to give reasons for this."

The Department of Mines & Metals (Ministry of Steel and Mines)* in their explanation stated that it was only in October 1956 that the details of the estimated expenditure to be incurred on the Kargali Washery Project could be known. This estimate covered the expenditure to be incurred on the main plant and equipment ordered from the Japanese firm and also the

In June 1964, the Ministry of Steel, Mines and Heavy Engineering was renamed as the Ministry of Steel and Mines and the Department of Mines and Metals was placed under its charge.

expenditure on ancillary works comprising water supply, sanitary and electric installations, civil construction, provision of roads, drains etc. These estimates were considered and approved by the Board of Directors of the N.C.D.C. at their meeting of November 15, 1956 and the Managing Director was authorised to proceed with the work. At the same time the Board wanted some clarifications and decided that proposal to Government for formal sanction should be sent after these clarifications had been considered by them. These clarifications were duly furnished to the Board and considered by them in their meetings of December 20, 1956 and February 20, 1957. The N.C.D.C. sent these estimates to the administrative Ministry on May 31, 1957 for formal sanction. The Department of Mines & Metals further stated: "It would thus be seen that the N.C.D.C. can be held responsible for having incurred expenditure on ancillaries etc., between the first sanction by the Board on 15.11.56 and their first submission of the estimates to Government in May 1957 and for continuing the scheme thereafter without sanction. The urgency of taking the work in hand has already been explained. It was feared that if commissioning of the washery was delayed the

Bhilai and Rourkela Steel Plants may be faced with shortage of coal. It can also be assumed that the order of actual expenditure during this short period would not have been very large. If formal sanction could have been accorded even by the middle of 1957 soon after the Corporation had come up with their estimates the irregularity of spending money without formal sanction of Government in the interim period could not then have been considered of such a serious order as not to merit condonation. It is the subsequent events resulting in delay in securing the formal sanction of the Finance Ministry even though the washery was commissioned in November 1958, that now makes the whole thing appear a serious irregularity in retrospect. But from the facts brought out in the preceding paragraphs it is apparent that no serious blame rests with N.C.D.C. In 1956 and 1957 obviously there was considerable enthusiasm in the N.C.D.C. to go ahead with an important project like a Washery and the management legitimately expected that formal sanction would be forthcoming in due course." With this explanation the Department of Mines and Metals resubmitted the case to the Ministry of Finance on October 29,

1965. There was a further reference on December 1st, 1965 from the Ministry of Finance to the Department of Mines and Metals asking for the following information:

- | | |
|--------------|---|
| Year 1962-63 | (A) Total production
in million tonnes. |
| & | |
| Year 1965-66 | (B) Total cost per tonne
of clean coal. |
| | (C) Net cost of Washing per
tonne of clean coal. |

The information last asked for by the Ministry of Finance was supplied by the N.C.D.C. through the Department of Mines and Metals* on January 13, 1966.

A summary of the case was then prepared in the Ministry of Finance and the file submitted for orders to the Financial Adviser (Shri K.S. Ehandari) on the 11th February, 1966. The Financial Adviser briefly traced the history of the project and while referring to its salient financial and economic features recommended on February 9, 1967 that ex-post-facto approval be accorded to the actual expenditure of Rs. 236 lakhs incurred on the Washery upto 31.3.66. The case was submitted to the Secretary (Coordination), Ministry

* The Department of Mines and Metals was given the status of a Ministry from the 25th January, 1966.

of Finance (Shri P. Govindan Nair), who approved it on the 9th February, 1967. A formal letter conveying the ex-post-facto sanction to a capital expenditure of Rs. 236 lakhs incurred upto 31.3.66 on the original Kargali Washery Project as concurred to by the Ministry of Finance was sent to the National Coal Development Corporation by the Ministry of Mines and Metals on March 1, 1967.

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APPENDIX 'A'

MEMORANDUM FOR THE EXPENDITURE FINANCE COMMITTEE

M E M O R A N D U M

Subject

1. *A concise statement of the proposal and full justification for it (including what has been achieved and what is expected in future).
2. (a) Is the proposal in respect of a 'new service'?
- (b) Has the proposal or any part of it been already considered by the Expenditure Finance Committee and if so what is the decision taken?
- (c) Has the proposal or any part of it been considered by any Parliamentary Committee and if so, with what result?

* N.B. Please attach:

- i) a statement indicating the number of posts as well as the pay scales under various categories required --
 - (a) in the current financial year; and
 - (b) eventually, when the scheme is in full operation, together with the basis (work standards) adopted for staffing.
- ii) a statement showing expenditure on building and other works indicating the basis on which it has been estimated and also the phasing of the works year by year;
- iii) a statement showing expenditure on stores & equipment; and
- iv) where estimates for buildings, equipment and other stores have been worked out on the basis of current costs, any increases that are likely or expected should be indicated against para 11 of the form.

Appendix 'A' (2)

3. Expenditure involved in the proposal and budget provision:

<u>Expenditure</u>			<u>Budget Pro- vision</u>
<u>Non-Recurring</u>	<u>Recurring</u>		
Rs.	Rs.	Rs.	

- i) during the current financial year.
 - ii) during subsequent years (yearwise).
 - iii) total expenditure when the scheme is fully completed.
 - iv) how is the expenditure to be met?
(Has specific budget provision already been made? If not, state whether a supplementary or a token grant has been or is to be obtained).
4. State briefly the estimated yield on the Project, and other economic implications, indicating anticipated receipts.
5. Is the proposal included in the Five Year Plan? If so:
- (a) State the amount included for the scheme in the Plan;
 - (b) If the scheme or the total provision envisaged in the Plan has been modified, indicate the extent of modification and reasons for the same. Also state whether the Planning Commission have concurred in the modifications.

Appendix 'A' (3)

6. Is any foreign exchange involved?
If so, state:
 - (a) items of expenditure involving foreign exchange;
 - (b) expenditure on foreign experts;
 - (c) whether clearance of the E.A. Department has been obtained; and
 - (d) whether the availability of credit facilities from foreign suppliers is proposed to be or has been explored and, if so, with what result?
7. Purchase of stores (state the procedure to be adopted for purchasing stores, plant, machinery etc., and whether any departure is necessary or proposed from the normal procedure prescribed for such purchases, with reasons).
8. Indicate the extent to which the scheme was worked out and scrutinised in full detail before budget provision was made.
9. Has any expenditure been incurred in anticipation of the approval of the Expenditure Finance Committee and if so, state the circumstances under which it has been done and the amount spent.
10. Conclusion -- (here bring out the specific points on which sanction of Expenditure Finance Committee is required.)
11. Supplementary information, if any.



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APPENDIX 'B'

CHRONOLOGY OF EVENTS

- 1954: The possibility of utilising the coking coal mined at Kargali and Bokaro Collieries to meet the needs of the proposed steel plants at Rourkela and Bhilai is examined by the Ministry of Production (Government of India) in 1954.
- July 1954: The Ministry of Production appoints, in July 1954, a Committee known as the Kargali Coal Washing Plant Committee to report on the nature, type and capacity of a coal washing plant suitable for improving the quality of coal produced at Bokaro/Kargali Collieries for use in the two steel plants.
- January 1955: The Committee submits its report in January 1955 and recommends the installation of a 550-ton per hour coal washing plant at Kargali for washing the entire coal output of the Kargali/Bokaro Collieries.
- February 1955: The recommendations of the Committee are considered in the Ministry of Production in an inter-departmental meeting held on the 21st February, 1955 and a decision is taken that a coal washing plant as proposed by the Kargali Coal Washing Plant Committee be installed at Kargali and commissioned before the end of 1957.

Appendix 'B' (2)

- 1955: Global tenders are invited by the Director General of Supplies & Disposals for the main items of plant and equipment.
- 1955 The Ministry of Production approaches the Ministry of Finance and obtains from them informal confirmation about availability of necessary funds for the execution of the Kargali Washery Project. It is decided that the formal financial sanction of the Ministry of Finance would be taken when the exact detailed cost estimates of the project were known.
- March 1956: The Director General of Supplies & Disposals places a contract on March 7, 1956 on Messrs. Daiichi Bussan Kaisha (later named M/s. Mitsui Bussan Kaisha) of Japan for the supply, erection and commissioning of a coal washing plant at Kargali.
- September 1956: The Government of India sets up the National Coal Development Corporation in September 1956.
- February 1957: The abstract cost estimates of the Kargali Washery Project are approved by the Board of Directors of the N.C.D.C. on February 22, 1957.
- May 1957: The Cost Estimates of the Kargali Washery Project are sent by the N.C.D.C. on May 31, 1957 to the Department of Mines and Fuel (Ministry of Steel, Mines & Fuel) for formal sanction.

Appendix 'B' (3)

- December 1957: The revised cost estimates are sent by the N.C.D.C. to the Department of Mines & Fuel in December 1957.
- March 1958: The Department of Mines and Fuel submits in March 1958, an E.F.C. Memorandum to the Ministry of Finance for formal sanction.
- March 1958: The E.F.C. Memorandum is returned to the Department of Mines & Fuel on March 12, 1958 with the following remarks of the Financial Adviser:
- "The Washery is nearing completion and it is somewhat academic to obtain sanction for the cost at this stage. What is really more important is the consideration of how the washed coal should be disposed of, so that the washery does not make a loss. I suggest this point be considered and the results of the agreement between the N.C.D.C. and the Hindustan Steel Ltd., and approved by the Departments of Mines & Fuel and Iron & Steel and the Ministry of Finance be embodied in the E.F.C. Memorandum."
- November 1958: The Kargali Coal Washing Plant is put into commission on November 1, 1958.
- December 1961: An agreement on basic principles to be followed in fixing the various prices of the Kargali washed coal is reached between the representatives of the N.C.D.C. and the H.S.L. on December 14, 1961.

Appendix 'B' (4)

- February 1962: A project report for the extension of the Kargali Coal Washing Plant for beneficiation of an additional 0.5 million tonnes of raw coal, is prepared by the N.C.D.C. and approved by its Board of Directors at their meeting held on February 15, 1962.
- October 1962: The E.F.C. Memorandum is suitably revised by the N.C.D.C. and sent to the Ministry of Mines & Fuel on the 25th October 1962 for necessary approval and onward transmission to the Ministry of Finance.
- November 1962: The Ministry of Mines and Fuel on November 24, 1962 asks for clarifications and additional information from the N.C.D.C.
- June 1963: A revised E.F.C. Memorandum incorporating additional information is sent to the Ministry of Mines & Fuel by the N.C.D.C. on June 12, 1963.
- July 1963: The Kargali Washery Expansion Scheme is approved by the Finance Minister on July 9, 1963.
- August 1963: The Ministry of Mines & Fuel makes a further reference to the N.C.D.C. asking for clarifications and additional information, and also sends the E.F.C. memorandum on August 3, 1963 to the Ministry of Finance for their perusal and preliminary examination.
- August 1963: The Assistant Financial Adviser (Department of Expenditure -- Ministry of Finance) sends back the case on August 5, 1963 to

Appendix 'B' (5)

the Ministry of Mines & Fuel with the following remarks:

"This is a fait accompli and we shall be grateful if the complete proposal is referred to us."

- November 1963: A revised E.F.C. memorandum is submitted (a third time) by the Ministry of Mines and Fuel to the Ministry of Finance on November 7, 1963 for the necessary financial sanction.
- February 1964: The Ministry of Finance returns the case to the Department of Mines and Metals (Ministry of Steel, Mines and Heavy Engineering) on February 21, 1964 raising certain queries and asking for additional information.
- May 1964: The Department of Mines & Metals (Ministry of Steel, Mines and Heavy Engineering) resubmits the E.F.C. memorandum on May 20, 1964 to the Ministry of Finance for formal financial sanction.
- July 1965: The Department of Mines & Metals (Ministry of Steel and Mines) is requested by the Ministry of Finance on July 31, 1965 to furnish reasons for the incurring of expenditure on the Project (other than on Plant and Equipment) without a valid authority.
- October 1965: The Department of Mines and Metals (Ministry of Steel and Mines) suitably explain the case and resubmit the same to the Ministry of Finance on October 29, 1965.

Appendix 'B' (6)

- February 1967: The Financial Adviser submits the case to the Secretary (Coordination, Ministry of Finance) on February 9, 1967 recommending that ex-post-facto approval be accorded to the actual expenditure of Rs. 236 lakhs incurred on the washery upto 31.3.66.
- February 1967: The Secretary (Coordination) accords approval on February 9, 1967.
- March 1967: The Ministry of Mines & Metals sends a formal letter to the N.C.D.C. on March 1, 1967 conveying the ex-post-facto sanction of Government to a capital expenditure of Rs. 236 lakhs incurred upto 31.3.66 on the original Kargali Washery Project.

